

## ATTACHMENT 3



Universal Service Administrative Company

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*Administrator's Decision on High Cost Program Beneficiary Appeal*

Via Email and Certified Mail

October 12, 2012

Tina Jordan  
Director of Finance  
Chariton Valley Telephone Corporation  
1213 E. Briggs Dr.  
Macon, MO 63552

Re: Appeal of the 2008 FCC Office of Inspector General USF Audit Program Audit of High Cost Program Beneficiary: Chariton Valley Telephone Corporation (SAC 421864), Audit Report HC-FL-121, Follow-Up Audit to HC-2008-206

Dear Ms. Jordan:

The Universal Service Administrative Company (USAC) has reviewed the appeal you filed on behalf of Chariton Valley Telephone Corporation (CVTC), dated September 27, 2010, concerning USAC's decision to recover \$304,653 in High Cost Program support disbursed for the 12-month period ending June 30, 2008. The recovery amount was determined by an audit of CVTC conducted by Grant Thornton LLP, under the FCC Office of Inspector General (OIG) Universal Service Fund (USF) audit program.

CVTC appealed USAC's decision to recover support related to the auditors' determination that the assignment of certain computer services costs was not compliant with the FCC rules on cost allocation. CVTC argued that it did not use a general allocator in its cost allocation, but used an indirect allocation using a cause-causative linkage as required by FCC rules.

Decision on Appeal: Denied. USAC has determined that \$345,094 of previously disbursed High Cost Program support should be recovered.

Discussion

CVTC appealed the finding (HC-FL-121-F01) that the methodology used for its cost allocation of computer services expense was incorrect. CVTC disputes the finding that a general allocator should be used instead of CVTC's indirect cost assignment factor for nine cost categories of computer services expenses. CVTC asserts that the auditors' application of a general allocator as an alternative was inconsistent with the intent of the

regulations.<sup>1</sup> Further, CVTC disputes the results of the auditors' recovery liability calculation based on inconsistencies in the development of the general allocator.

CVTC argues that the auditors erred when applying a general allocation factor to its distribution of computer services to affiliates because a general allocation factor should only be used when a direct or indirect cost assignment is not available.<sup>2</sup> Further, CVTC claims that its "Revenue/Net Income" allocator is compliant with the controlling FCC rules because this indirect, revenues-based, allocator is a cost-causative measurement of its affiliates' usage of the company's computer network.<sup>3</sup> Because the finding's nine hardware and software cost elements were used to measure wholesale and retail network usage, CVTC claims revenue would be a relevant allocator.<sup>4</sup>

After reviewing the exhibits offered by CVTC and the auditor, USAC determined that the company's Revenue/Net Income allocator resulted in an invalid distribution of the computer service expenses as identified in the auditors' finding. The auditors were correct in identifying the inappropriate selection of the Revenue/Net Income allocator. According to 47 C.F.R. § 64.901(a)(3), an indirect cost allocator can only be used when direct analysis cannot be identified. The use of an indirect allocator must be based upon a cost-causative linkage to another cost category for which a direct assignment or causative linkage exists.<sup>5</sup> CVTC's use of the indirect allocator based on a Revenue/Net Income ratio cannot be appropriate because neither of these figures have a direct linkage to the cost of the computer systems. USAC agrees with the auditors that CVTC made a non-compliant allocation of the computer services costs identified in Finding HC-FL121-F01, and therefore hereby denies CVTC's appeal.

In addition, CVTC disputes the results of the auditors' recovery liability calculation based on inconsistencies in the development and application of the general allocator.<sup>6</sup> CVTC asserts that the auditor's general allocator was not applied consistently across the cost categories. Following further review, USAC concurs with CVTC that the general

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<sup>1</sup>Letter from Craig S. Johnson of Berry Wilson, LLC for Chariton Valley Telephone Corporation, to High Cost and Low Income Division, USAC, dated Sept. 27, 2010, page 4 (*CVTC Appeal Letter*).

<sup>2</sup> *CVTC Appeal Letter*, page 5.

<sup>3</sup> *CVTC Appeal Letter*, page 4.

<sup>4</sup> *CVTC Appeal Letter*, page 5.

<sup>5</sup> 47 C.F.R. §64.901(a) (3) ("Costs which cannot be directly assigned to either regulated or nonregulated activities will be described as common costs. Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs between a carrier's regulated and nonregulated activities. Each cost category shall be allocated between regulated and nonregulated activities in accordance with the following hierarchy: (i) whenever possible, common cost categories are to be allocated based upon direct analysis of the origin of the cost themselves. (ii) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available. (iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and nonregulated activities.").

<sup>6</sup> *CVTC Appeal Letter*, page 6.

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allocator was not consistently applied. USAC then applied the 39% general allocator to the cost categories that were appropriate and recalculated the monetary impact, resulting in a revised monetary impact. CVTC's revised excess funding total is \$345,094, consisting of \$254,609 of HCL and \$90,485 of ICLS. USAC will recover the revised amounts.

#### USAC Action and CVTC Appeal Rights

USAC hereby denies CVTC's appeal and will recover of \$345,094 in previously paid High Cost Program support within sixty (60) days of the date of this letter. USAC will offset any amounts to be recovered against support CVTC is scheduled to receive through the monthly High Cost Program support disbursement process. If the recovery amount exceeds the current month's disbursement, USAC will continue to net the recovery amount against subsequent monthly disbursements. USAC also reserves the right in its discretion and at any time to issue an invoice to CVTC for all or a portion of the amount to be recovered. If any further errors are found in CVTC's reporting for the period under audit herein, USAC reserves the right to recover the financial impact of those deviations.

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If you wish to appeal this decision, you may file an appeal pursuant to the requirements of 47 C.F.R. Part 54 Subpart I. Detailed instructions for filing appeals are available at:

<http://www.usac.org/hc/about/program-integrity/appeals.aspx>.

//s// Universal Service Administrative Company